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SUBJECT: PRESIDENT SARKOZY'S TRIP TO LIBYA SETS HIGH HOPES FOR  
LUCRATIVE CONTRACTS

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¶1. (SBU) Summary: Having achieved the desired political effect of burnishing his image as a man who can help resolve intractable issues, French President Nicolas Sarkozy used his July 25 visit to Libya following the release of five Bulgarian nurses and a Palestinian doctor to boost economic and trade relations with that country. A number of framework agreements were signed during the visit, including a memorandum of understanding to build a Libyan nuclear reactor for water desalination. French nuclear giant Areva expects to benefit from the warmer relations, as does oil group Total and engineering group Alstom. Sarkozy's effort to derive real commercial gain from his newfound relationship with Libyan leader Qadhafi is partly intended to make up ground believed lost to the United States and others since Libya's rehabilitation in late 2003. He likely expects that his efforts will yield more benefits than former President Chirac obtained following his 2004 visit to Tripoli, though French businesses may still find Libya a daunting place to do business. End Summary.

Building on past efforts

¶2. (U) Franco-Libyan relations have been steadily improving since a 2004 accord on a Libyan compensation deal for the victims of a French DC-10 airliner bombing over Niger, which killed 170 people, including 54 French, in 1989. The deal paved the way for a November 2004 visit by then-President Jacques Chirac and a large delegation of French businessmen hoping for a bonanza of new contracts. The two countries resumed defense cooperation in February 2005 and struck an accord on civilian nuclear research in March 2006. French aerospace manufacturer Dassault also signed an agreement to service 12 Libyan Mirage F1 jets.

¶3. (U) French exports to Libya have doubled since Chirac's trip, reaching 433.6 million euros (600 million dollars) last year. France imported 1.9 billion euros worth of goods from Libya over the same period, almost exclusively hydrocarbons (representing three percent of all French oil supplies). However, France remains a modest trading partner and French firms never achieved the success they hoped for following Chirac's visit. France is currently Libya's sixth supplier, far behind Italy and Germany, with Libya accounting for just 0.1 percent of French exports and 0.45 percent of imports.

New ambitions

¶4. (U) "We can do a lot more and a lot better with Libya," Elysee Spokesman David Martinon said on the eve of Sarkozy's official visit. In Tripoli French Foreign Minister Bernard Kouchner signed a memorandum of understanding to furnish Libya with a nuclear reactor for water desalination. Sarkozy noted that the project could take months, if not years, to complete and indicated that French nuclear company Areva would be involved. Prior to Sarkozy's visit, Areva

confirmed that it had been approached to build nuclear plants, adding that talks which had begun last year were still at a preliminary stage. France and Libya also signed a global framework agreement reinforcing bilateral cooperation in many sectors, including health, education, scientific research, technology, combating terrorism and organized crime, defense and security as well as economic and financial cooperation.

15. (U) Other French groups are expected to take advantage of the improved bilateral relationship. French oil giant Total intends to take part in the recently-launched tender process for the exploration of 41 gas blocks. The French heavy engineering group Alstom, which makes high-speed trains and energy turbines, said meanwhile that any warming in Franco-Libyan ties would likely constitute a positive signal for its commercial development. In the banking sector French group BNP Paribas won a tender for the privatization of 19 percent of the capital of the Sahara Bank at a cost of 145 million euros. Libya has also shown interest in the Rafale, the Dassault fighter that has not yet been sold outside France.

Comment

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16. (SBU) President Sarkozy clearly hopes that his visit, and France's role in the nurses' release, will reap dividends in terms of new contracts and commercial relationships. French companies have the political signal they were waiting for to move aggressively in seeking out opportunities in Libya. The French business community is aware, however, that with the exception of Total, it lags behind the United States and many EU partners in its efforts there. Sarkozy, who has publicly eschewed the notion that he intends to link France's bilateral relationships to his personal relationships with foreign leaders, probably hopes nevertheless to derive some gain from his current honeymoon with Qadhafi. As French

PARIS 00003193 002 OF 002

businessmen found after Chirac's visit, however, a good relationship at the highest level is no guarantor of commercial success.

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